DANDA TROUVÉ
INVESTMENT MANAGEMENT
Money Managers You Can Trust

October 2016 Thoughts and Insights

As we enter the final weeks of the presidential campaign, be prepared to hear media pundits make all kinds of assertions about whether President Trump or President Clinton would be better for the stock market.

Historical research suggests that who is President, and from which party, has less impact on your portfolio than is often assumed. What's important is to prevent your political biases and emotions from interfering with your investment decisions.

We are not saying that who is president is unimportant for the economy and the markets, but there are many other market-moving factors at work both at home and abroad over which he or she exercises little or no control. These include oil prices, interest rates, technological breakthroughs, innovation, entrepreneurism, wars, terrorism, and climate change.

However, we may have some insights on how different equity sectors may be affected depending on who is President.

Clinton favors greater regulation, especially with respect to the Health Care sector and so she would be a negative for biotech and big pharma stocks. Hospital stocks, however, could be a beneficiary within this sector as she supports expansion of the Affordable Care Act (ACA) as well as Medicaid coverage. While biotech and pharma would respond well to a Trump victory, his efforts to repeal the ACA would negatively hit the hospital stocks.

Clinton would also be a negative for the Banks as she has pledged tougher rules that go far beyond Dodd-Frank. She would also be negative for the Energy sector as Trump would be far more relaxed on drilling and exploration activity. Trump would also not stand in the way of pipeline expansion and is a key advocate for Keystone. Fossil fuels would embrace a Trump presidency while alternative and clean technologies would favor Clinton taking the oval office.

Both candidates would be good news for the Defense sector. Aerospace and Defense would be a big winner under Trump.

Both candidates have made infrastructure spending a key plank of their platforms. Clinton has proposed a five year plan to bolster public sector capital spending. Of course Trump has the wall to be built at the Mexican border. Consider all of this a plus for the Industrials: cement, concrete, steel and machinery.

While the consensus view is that the stock market will have trouble with Trump because of the "uncertainty" or "unpredictable" factor, the same was said of Ronald Reagan back in 1980.

Trump's proposed tax cuts are broadly based and not nearly as targeted as Clinton's fiscal plan. So he is more pro-growth, but at the cost of a much larger fiscal deficit. Clinton is much more of a fiscal conservative.

Trump is worse for the Treasury market on many levels. First is his preference for debt expansion. Second, his proposed tariffs would trigger more imported inflation. Third, he wants to replace Janet Yellen with a more hawkish Fed Chairperson. All this means higher interest rates under his wing, which is negative for Treasuries, but actually bullish for the dollar and constructive for the banking sector.

All that said, what we know about the past is that presidents have a tendency to surprise.

- Eisenhower was a military man who turned his fight in the White House towards building the nation's infrastructure.
- Nixon was seen as an arch-conservative, and yet he signed into law the Equal Rights Amendment and the EPA.
- Carter beat Ford because the latter goofed up on his lack of knowledge about the Soviet influence on Europe, and yet he ran a horrible foreign policy himself.
- Reagan was viewed as a big risk on many fronts.
- George H. Bush was elected on the Reagan legacy and then proposed higher taxes.
- Left leaning Bill Clinton deregulated the Telecom sector, engaged in welfare reform and signed free trade agreements.
- George W. Bush ran a campaign on an insulated domestic policy and turned into a wartime president.
- Obama was elected on hope and change and eight years later he will mostly be remembered for the Affordable Care Act, for the better or worse depending on your personal views.

Presidents have this tendency to surprise us in both directions. What you see isn't always what you get, yet America has prospered. We can definitely expect some volatility in the markets post the election, but it will quickly settle down and we will make movements to the portfolio accordingly.

In summary, neither candidate will be "better" for Wall Street as stocks tend to rise over time regardless of who occupies the White House. Emotions do seem to be running particularly high during this presidential campaign season, which is why we will not let our political biases or emotions deviate us from our well-thought out, long-term investment portfolios and strategies. Instead, we will remain concentrated on what we can control: our appropriate long-term asset allocations, reduced investment costs, disciplined portfolio rebalancing and tax management.

As always, we remain dedicated to serving your investment needs according to your goals. Please call or write with any questions or concerns you may have.

Michelle & Jim

8201 Mission Road, Suite 200 | Prairie Village, KS 66208 | Tel 913-262-1108 | Fax 913-262-2015
www.dandatrouve.com